

RECEIVED

SEP 13 1 45 PM '00

POSTAL RATE COMMISSION  
OFFICE OF THE CLERK

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**INITIAL BRIEF OF PITNEY BOWES INC.**

Communications regarding this document should be served on

Ian D. Volner  
N. Frank Wiggins  
Venable, Baetjer, Howard & Civiletti, LLP  
1201 New York Avenue, N.W.  
Suite 1000  
Washington, DC 20005-3917

Dated: September 13, 2000

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**INITIAL BRIEF OF PITNEY BOWES INC.**

Under the current First-Class single-piece rate design, users of metering technology unfairly and improperly bear costs associated with the manufacture and distribution of stamps that they do not cause the Postal Service to incur. To redress this manifest inequity, Pitney Bowes Inc. ("Pitney Bowes") has proposed a discount of one cent applicable to mailers who use metering technology to pay the First-Class/First-Ounce single-piece rate (the "Metering Technology Discount"). The discount would further provide stamp users -- especially small businesses and residential mailers -- with an incentive to migrate to more efficient and less costly postage evidencing technology. The Postal Service itself concedes that the theoretic and factual predicates for the Metering Technology Discount are fully met, as Pitney Bowes will show in this Initial Brief. Pitney Bowes will further show that there are no valid objections to the proposed discount. We urge the Commission to recommend it.

## TABLE OF CONTENTS

Summary of Position .....	2
The Metering Technology Discount .....	3
Argument .....	5
A.    The Legal and Factual Predicates for the Metering Technology Discount are Fully Satisfied .....	5
B.    The Postal Service's Opposition to the Metering Technology Discount is Based Upon Claims that Are Hypothetical and Otherwise Without Merit .....	7
1.    The Claim that Recommendation of a Metering Technology Discount Will Open the Floodgates to the Same Discount in Other Classes and Rate Categories Is Without Basis .....	7
2.    The Postal Service's Claim that there Will Be No Migration of First-Class Mail Stamp Users to Metering Technology is Without Merit .....	10
C.    The Small Net Reduction in Revenue the Postal Service Will Experience from the Metering Technology Discount Can Readily be Absorbed Without Unreasonably Burdening Other Mailers .....	14
Conclusion .....	17

## **SUMMARY OF POSITION**

It is a basic principle of law and postal policy that activities mailers perform which enable the Postal Service to avoid and reduce costs should be reflected in the rates those mailers are required to pay. The use of metering technology to affix First-Class single-piece postage produces clear and measurable savings to the Postal Service. Those savings are not, however, reflected in the rates those mailers now pay. Under the Metering Technology Discount, a portion of those savings would be passed on in the form of a one-cent discount per piece. Pitney Bowes will show in this brief that the proposed Metering Technology Discount meets the statutory and policy criteria for rate de-averaging through the introduction of discounts, serves the needs of a critical but under-served market, and thus fully meets the fairness and equity criteria of the Act. The Postal Service does not contend otherwise.

The Postal Service does not dispute the validity of the underlying predicates for the Metering Technology Discount. Rather, the Postal Service's claim is that recommendation of a metering discount will open the floodgates to the necessary introduction of such a discount in other rate categories or classes. This claim is baseless. It completely ignores the fact that the lion's share of attributable transaction costs of collecting revenues from stamps is assigned to the First-Class single-piece mail category. Thus, the only category of mailers who deserve relief in the form of a Metering Technology Discount from otherwise applicable rates are users of the First-Class single-piece rate category.

The discount will result in a very substantial migration of small business and residential mail users from stamps to metering technology. This migration will further reduce the Postal Service's stamp production costs and better enable it to serve all mailers. The Postal Service's claims that migration will not occur is without merit. As a result, the very modest net revenue deficiency that will result from implementation of the Metering Technology Discount can be readily absorbed without undue burden on mailers who do not qualify for the discount.

### **THE METERING TECHNOLOGY DISCOUNT**

The Metering Technology Discount will redress the existing inequity in the current First-Class rate structure and further basic policy objectives as mailers move from the costly and cumbersome use of postage stamps to the far more efficient use of metering technology. Under the current rate schedule, all users of the First-Class single-piece rate category pay the very substantial costs that the Postal Service incurs in the manufacture, distribution and sale of postage stamps. Tr. 29/13899, 13904. However, users of metering technology -- both traditional stand-alone meters and the newly introduced PC Postage devices like Pitney Bowes' ClickStamp® -- do not cause the Postal Service to incur these stamp related costs. Users of metering technology do not need to purchase stamps and burden the Postal Service's window service operations when they wish to affix postage to their mail pieces. Tr. 23/10561, 10562. Their worksharing efforts can and should be reflected in the rates that they pay.

The Metering Technology Discount would do just that and no more. The one-cent discount proposed represents (very conservatively) only 44% of the 2.3

cents attributable transaction costs that metering technology avoids in the single-piece First-Class rate category. Tr. 29/13893, 13901. It would apply to mailers who use traditional, stand-alone meters as well as the newer Internet-based PC Postage devices. Tr. 23/10564. The Metering Technology Discount would be deducted from the otherwise applicable First-Class first-ounce rate by mailers who use metering technology to pay postage. That is the only category of mailer significantly burdened with the Postal Service's cost of manufacturing, distributing and selling stamps. Tr. 29/13952. The discount would be simple to apply: because all metered mail entered at the First-Class single-piece rate regardless of content or other characteristics would qualify, the Metering Technology Discount would be readily understandable by consumers and Postal Service mail verification clerks.

The primary beneficiaries of the Metering Technology Discount would be small businesses and residential users who make up the overwhelming majority of the users of the First-Class single-piece rate category. Tr. 29/13909, Tr. 23/10560. The evolution of metering technology makes this form of postage payment readily accessible to this category of mailers. Tr. 23/10560-63. Thorough, careful and conservative market research establishes that the proposed discount will prompt stamp users to convert to the use of metering technology. Tr. 23/10585-88. The Metering Technology Discount will thus enable the Postal Service to better serve all users of its "core product" -- unsorted First-Class mail. Tr. 23/10584.

## ARGUMENT

### A. The Legal and Factual Predicates for the Metering Technology Discount are Fully Satisfied

There are three legal and policy elements that a proposed discount must satisfy. First, Section 3622(b)(3) of the Act specifically dictates that mailers should not be burdened with costs that they do not cause the Postal Service to incur. 39 U.S.C. §3622(b)(3). The Commission has frequently implemented this fundamental mandate by the creation of discounts. Second, the Commission has insisted that discounts must, on an exact piece comparison basis, reflect only the costs that the Postal Service "actually saves." *Decision in Docket MC95-1* at IV-94; *see also Decision in Docket R97-1* at 384. Third, the Act requires that the Commission recognize the desirability of "simplicity" in rate design in order to assure that the rate structure is readily understandable to the public and administrable by the Postal Service. 39 U.S.C. §3622(b)(7). The Postal Service's witnesses have explicitly conceded that these legal and policy predicates for the Metering Technology Discount are fully met:

First, Pitney Bowes has shown the causal link between the activities performed by the mailer and the costs that the Postal Service avoids. Tr. 29/13898-13901. Witness Fronk agreed that "costs incurred by the Postal Service in the manufacture and distribution of postage stamps and other accountable paper are not caused by users" of metering technology. Tr. 12/4925-26; *see also*, Tr. 12/4789.

Second, witness Miller conceded that the one-cent discount "is based on an estimated 2.3 cent cost savings that reflects avoided stamp manufacturing and distribution costs." Tr. 45/19665. There is no dispute that the Metering Technology Discount is based solely on avoidable attributable costs and uses the Postal Service's own analysis of variability in the relevant cost segments. See, e.g., Tr. 6/2631, 2617, 2634-35; Tr. 29/13916.

Third, the Postal Service does not claim that the Metering Technology Discount will, nor could it, cause administrative problems or consumer confusion. Dr. Haldi testified that the portion of the mailing public choosing to take advantage of the discount "would not need to maintain any inventory of stamps of any denomination." On the other hand, mailers who opt to continue to use stamps would pay only one rate for the First-Ounce of single-piece mail "just as they do now." Tr.29/13908. Postal clerks would experience no difficulty in administering the discount: metering technology displays distinctive evidence of postage payment (See, e.g., DMM PO30.41); eligibility would be readily determinable at a glance. Tr. 29/13908.

Thus, the Metering Technology Discount meets each of the relevant statutory and policy predicates. It de-averages the current single piece First-Class rate structure so that metering technology users are not improperly burdened with stamp costs that they do not cause. The savings to the Postal Service have been measured in conformity with the Commission's "exact piece" analysis, and the discount actually passes through less than the full amount of avoided costs. The Metering Technology Discount maintains simplicity of rate



structure because it is readily understandable and can be administered without difficulty. As a result, the Metering Technology Discount fully satisfies the first and the foremost of the statutory criteria, the mandate that the schedule recommended by the Commission be "fair and equitable." 39 U.S.C. §3622(b)(1). Indeed, without the Metering Technology Discount it is not possible to conclude that the First-Class single-piece rate schedule is either fair or equitable.

**B. The Postal Service's Opposition to the Metering Technology Discount is Based Upon Claims that are Hypothetical and Otherwise Without Merit**

1. The Claim that Recommendation of a Metering Technology Discount will Open the Floodgates to the Same Discount in Other Classes and Rate Categories is Without Basis. On rebuttal, witness Miller asserts, without explanation, that the Metering Technology Discount cannot be limited to the First-Class single-piece rate. His Table 5 (Tr. 45/19669) purports to establish that the Postal Service would experience a net revenue deficiency of approximately \$1.7

billion if the Metering Technology Discount of one-cent were extended beyond that rate category. This "floodgates" argument is meritless.<sup>1</sup>

The fundamental problem with Mr. Miller's floodgates argument is that the lion's share of the attributable costs of manufacture and distribution of stamps is borne by the single-piece First-Class rate category. Mr. Miller admitted he did not "look at the attributable cost" of stamp production and distribution. Tr. 45/19869. He was unable to state whether (and if so, to what extent) the rates for the subclasses and rate categories listed in his Table 5 (either original or revised) bear any portion of the attributable cost associated with the manufacture, distribution and sale of postage stamps. Dr. Haldi, by contrast, did examine that question. He testified that "much of the attributable transaction costs of collecting revenue from stamps is distributed to non-discounted First-Class mail." Tr. 29/13952. That is precisely the reason why the Metering Technology Discount is limited to "non-discounted First-Class mail" -- the First-Class single-piece category.

Witness Miller has effectively conceded that Dr. Haldi's conclusion is correct. The witness admitted that "we took [Periodicals] out" of Table 5 (when revised) because "there is literally or virtually literally no attributable costs

---

<sup>1</sup> The witness also suggested that there may be differences in costs to the Postal Service among different categories of stamp users depending upon the stamp distribution channel. He implies -- although he does not claim -- that these differences might warrant separate stamp discounts. However, witness Miller conceded that he has no idea of the magnitude of the cost difference among the various methods that the Postal Service uses to distribute stamps. He also recognized that even if the cost differences were sufficient to warrant consideration of further de-averaging of the single-piece First-Class category, very serious revenue protection and administrative problems would arise. Tr. 45/19855. Thus, the Commission need not consider the issue of a possible discount or discounts for stamp purchasers.

associated with the manufacture, distribution and sale of stamps assigned to that subclass or those subclasses." Tr. 45/19863. Similarly, he conceded that Business Reply mail was removed from the revised table because neither stamps nor metering technology is used to pay for postage in that rate category (Tr. 45/19865, line 8-14). Therefore, none or very little of the attributable costs associated with stamps are assigned to that category. The fact is that all of the subclasses (with the exception of the single-piece First-Class rate category) listed on witness Miller's Table 5 make little or no use of stamps and thus receive none of, or a negligible assignment of, the attributable costs arising from the manufacture and distribution of stamps.

For precisely this reason Mr. Miller did not purport to claim that his Table 5 represents an actual measure of the revenue reduction that will result from the Metering Technology Discount. Tr. 45/19668. In fact, the entire claim is fictional, as the following colloquy shows:

"Q. And what you are saying is that you don't have any idea what the costs are that would be avoided in these subclasses [listed in revised Table 5] if they could avoid the costs at all?

A. I think I have said that I didn't really look at the attributable costs. I was just saying if they *reverted back* basically if they reverted back to stamps . . .

Q. Hypothetically reverted back.

A. Yes. Exactly."

Tr. 45/19869. With literally no evidence to support it, the hypothetical possibility that mail might "revert back" to stamps is not probative evidence of the claimed

net revenue deficiency. The claim of a revenue reduction greater than Dr. Haldi has calculated should be rejected out of hand.

Limiting the Metering Technology Discount to users of the First-Class single-piece rate category is, therefore, entirely consistent with the anti-discrimination provisions of the Act. The discount creates no "undue preference" (39 U.S.C. §403(c)) to First-Class single-piece mailers because mailers using other First-Class categories or other subclasses are not "similarly situated." See, e.g., *Ad Hoc Telecommunications Users, et al. V. FCC*, 680 F.2d 790, 808 (D.C. Cir., 1982). First-Class single-piece category mailers bear an overwhelming proportion of stamp manufacture and distribution costs. It is the only rate category in which rate de-averaging through a discount is warranted. For precisely the same reason, an "exact piece" comparison is possible only for single-piece First-Class mail. It is the only category in which it is possible to compare the cost of a stamped mail piece with one in which postage has been evidenced through metering technology. The rates of other subclasses and other First-Class categories already reflect the exclusion of attributable stamp production and distribution costs because stamps cannot by rule be used, or are not in practice used by, mailers in those subclasses or categories.

2. The Postal Service's Claim That There Will Be No Migration of First-Class Mail Stamp Users to Metering Technology is Without Merit. Dr. Heisler's market research study shows that, at a one-cent discount, approximately 4.9 billion pieces of mail originated by businesses with fewer than 50 employees and by households (through PC Postage) will switch from the use

of stamps to the use of metering technology. Tr. 23/10584-85; Tr. 29/13910. The estimation of migration is conservative. Dr. Heisler's volumetric projections are confined to 80% of those respondents who both (i) met the qualifying conditions established by the terms of the study<sup>2</sup> and (ii) stated that they were "extremely likely" to migrate from stamps to metering technology. Tr. 23/10590.

Dr. Staisey's claim that this study is of no probative value is baseless. Most revealing is what Dr. Staisey has omitted from her criticism. She does not criticize the basic survey design, the manner in which it was carried out, the qualifying conditions imposed, or the use of a "generic product" description in the survey questionnaire. Rather, Dr. Staisey supports her purely judgmental conclusion that the survey results are entitled to no weight whatsoever, on (a) criticisms of the survey questions which are trivial, and (b) comments about the response rate which are both confusing and incorrect. Even if the criticisms had merit -- and they do not -- they would not support her conclusion that Dr. Heisler's market research is entitled to no weight whatsoever.

First, Dr. Staisey's claim that consumers might not fully understand the "burdens" that use of a PC Postage device would impose upon them (Tr. 45/19924) is not within the range of reasonable criticism of the survey instrument. It entirely ignores a fundamental condition of the survey. Dr. Staisey herself admitted that, by the conditions of the survey, qualified PC Postage respondents

---

<sup>2</sup> In the case of the non-household meter study, the qualifying conditions included the requirement that the firm spend at least \$10 per month on postage and that postage be applied primarily by stamps. In the case of respondents who were presented with the IBI concept statement, additional qualifying conditions -- the respondent must have a computer, must have Internet access and must have an inkjet or laser printer -- were imposed. See PB LR-3.

-- those with whom the interviews were completed -- must already have a computer, Internet access and a specific type of printer. Tr. 45/19949-52. To assume that these interviewees do not adequately understand the "burdens" that computing technology entails is irrational. Similarly, Dr. Staisey's contention that the access charge or the meter rental fee cost must be repeated before each iteration of the discount level (Tr. 45/19924; 45/19957-58) assumes a complete lack of sophistication on the part of qualified interviewees. That assumption is entirely unwarranted.

Second, Dr. Staisey's claim that Dr. Heisler's testimony does not "explicitly state the response rate" associated with the household and non-households surveys (Tr. 45/19926) is either confused or incorrect. Dr. Staisey's definition of the response rate is somewhat elusive. At one point, she stated that she used the term "response rate" to refer to "the ratio of those who have responded to those who were selected to have the option to respond." Tr. 45/19963. This definition of response rate has no meaningful application to a survey of the type conducted by Dr. Heisler. In a general market study this definition of response might be of some value because it would provide an indicator of the representativeness of those who did respond to the general population. However, this was not a general market study. Rather, the purpose of this survey was to test the response to a discount (or more precisely several levels of discounts) among consumers who fall within a defined population (small business and residential mailers) and who also have sufficient mail volume and

other characteristics to qualify them as realistic candidates for migration to metering technology.

Consistent with the avowed purpose of the survey, Dr. Heisler used the ratio of *qualified* respondents to total respondents to develop the potential market size. See, e.g., Tr. 23/10588. That is what he should have done. Dr. Staisey ultimately admitted as much. During cross-examination she revised her definition of response rate and stated that it is the ratio of "those who have completed [the survey] out of those who were selected in the sample." Tr. 45/19964. This is the precise response rate that Dr. Heisler used to size the market, Tr. 23/10588, Tr. 23/10592, and that response rate is explicitly shown in Dr. Heisler's testimony. Tr. 23/10597-10804.<sup>3</sup> Dr. Staisey is either confused as to the proper definition of the proper response rate in this case, or wrong in her claim that the proper response rate was not "explicitly" stated.

Third, it is certainly true that there is a fairly large range between the lower and upper bounds of the volume estimates that Dr. Heisler derives from his survey. Tr. 23/10622. However, this does not warrant the conclusion that the survey has no probative value. A low coefficient of variation is inherent in all intent surveys, including those that the Commission has relied upon in prior cases. Moreover, Dr. Heisler has explicitly recognized the difficulties in forecasting volumes from an "intent study." Tr. 23/10590, lines 8-15. His volume calculations categorically exclude respondents who reported themselves as

---

<sup>3</sup> In a final shift of position, the witness asserted that it is not the response rate itself but the small size of the sample that gives rise to her conclusion. Tr. 45/19967. She was either unable, or unwilling, to state what size sample she considered necessary to yield acceptable results. Tr. 45/19969.

somewhere in the range between "extremely likely" and "not at all likely" to migrate, as well as 20% of the qualified respondents who reported themselves "extremely likely" to migrate. *Id.* It is noteworthy that Dr. Staisey had no criticisms of the adjustments that Dr. Heisler made. Most importantly, even at the lower boundary, Dr. Heisler's testimony shows that a very substantial volume of mail will migrate from stamps to metering technology (Tr. 23/10622), a fact which Dr. Staisey conveniently overlooks in arriving at her extreme conclusion that the Heisler study cannot be depended upon at all.

Dr. Heisler's careful and thorough market study provides the Commission - and the Board of Governors -- with reasonable assurances that mailers will respond favorably to the Metering Technology Discount. The Postal Service's claim that there will be no migration from costly and cumbersome stamp usage to metering technology is contradicted by the record.

**C. The Small Net Reduction in Revenue the Postal Service Will Experience From the Metering Technology Discount Can Readily be Absorbed Without Unreasonably Burdening Other Mailers**

Dr. Haldi's testimony calculates that the Postal Service will experience a net reduction in revenues from single-piece First-Class mail (after subtraction of avoided attributable costs and giving effect to increased volume and migration from stamps to metering technology) of \$156.5 million. Tr. 29/13910-12. The actual net revenue effect will almost certainly be somewhat smaller than Dr. Haldi calculated because his calculations are based on FY1998 rather than Test Year costs and revenues.



This net revenue reduction is small in both relative and absolute terms. With Test Year before rates revenues approaching \$68 billion, the \$156.5 million revenue reduction represents less than 3/10th of a percent of total revenues. Moreover, as Dr. Haldi pointed out, even if no migration from stamps to meters is assumed, the revenue reduction would not justify increasing the First-Class single-piece rate paid by stamp users by one-cent. Tr. 29/13967, line 23-13968, line 4. Accordingly, although the Commission might properly hesitate to recommend a discount at the level proposed if the effect were to impose a significant burden on other mailers, that is not the case here.

There are, moreover, several other cost and revenue related considerations that justify this discount at the level proposed despite the modest calculated net revenue effect:

First, the Postal Service itself has recognized that remote resetting of meters yields benefits to it that go beyond rate case cost analysis. More than 90% of meters, and all PC Postage devices, are remotely reset. See *Retirement Plan for Manually Set Postage Meters*, 65 Fed. Reg. 25339 (May 1, 2000). The Postal Service has announced a proposed plan to retire the remaining "manually set electronic meters" -- those that must be taken to the post office. *Retirement Plan*, 65 Fed. Reg. At 25339. As a result (subject to scheduling and other issues), it is very likely that all metering technology installed beginning during the Test Year will be remotely reset. This will increase the cost savings that the Postal Service realizes from metering technology. These savings are not reflected in Dr. Haldi's analysis.

Second, the migration of stamp users to remote reset metering technology will enable the Postal Service to more effectively use its window service resources and, therefore, better serve those mailers who, for whatever reason, elect to continue to use stamps. Tr. 23/10565. These cost savings, as well, are not reflected in Dr. Haldi's exact piece analysis.

Third, offering an incentive to mailers to migrate from stamps is an effective means of attracting new customers and new volume. The senior postal official responsible for strategic planning has specifically recognized this

"When customers do not have to go to the Post Office to fill their postage meters, they may even use more postage simply because the new technology has made it easier for them to do so. New customers may be drawn in."

Tr. 29/13906. The Postal Service's First-Class rate design witness in this case, Mr. Fronk, confirmed this assessment. Tr. 10/4793.

In view of the relatively modest calculated net revenue deduction and the plain, but unquantifiable other cost and revenue benefits that will flow to the Postal Service from this incentive, the proposal can be implemented at the level proposed without unduly burdening other mailers.

## CONCLUSION

The Commission should find that the Metering Technology Discount comports with the requirements of the Postal Reorganization Act and is in furtherance of basic postal policy objectives. The Metering Technology Discount should be recommended.

Respectfully submitted,

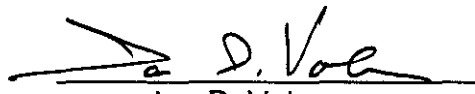
A handwritten signature in black ink, appearing to read "D. Volner", with a long horizontal line extending to the left.

Ian D. Volner  
N. Frank Wiggins  
Venable, Baetjer, Howard & Civiletti, LLP  
1201 New York Avenue, N.W.  
Suite 1000  
Washington, DC 20005-3917

Counsel for Pitney Bowes Inc.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the rules of practice.

  
Ian D. Volner